Freddie Mac Staff:
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The circumstances surrounding the COVID-19 pandemic have caused unprecedented disruption in fulfilling certain underwriting and purchase requirements, such as site inspections and third-party reports. To continue to provide liquidity for borrowers, the Freddie Mac Small Balance Loan (SBL) team will temporarily require a 12-month Debt Service Reserve (DSR) for all new and uncommitted SBL loans during this time, effective March 30. All commitments will require inclusion of the COVID-19 Debt Service Reserve Rider, which will be posted shortly on our website with our other loan documents. Until it is posted, the rider will be attached to issued commitments.

With this DSR in place, Freddie Mac SBL may allow loans to proceed amid the potential economic impacts of COVID-19 and be purchased with certain modified due diligence reports, such as appraisal, zoning, inspection, physical risk report and seismic.

Accessing Funds to Pay the Mortgage: The borrower will need to submit a request with supporting documents showing less than breakeven collections to be able to apply funds from the DSR to the payment of principal and interest.

Releasing Funds Back to Borrower: The release of the remaining DSR will be within 30 days following satisfaction of the following five items:

1. Lender receives a release request from the borrower.
2. All federal, state and local emergency declarations or similar government actions related to COVID-19 have been lifted for at least 90 days.
3. All due diligence items have been completed to Freddie Mac's specifications and borrower has remediated all deferred due diligence shortfalls.
4. If borrower and Freddie Mac entered into a forbearance agreement, all of the forborne debt service payments have been repaid.
5. Borrower provides evidence satisfactory to Freddie Mac of residential occupancy at a minimum of 80% and collections, on a three-month average and for the last month, that satisfy the policy minimum underwritten Debt Coverage Ratio (DCR) for the loan. For example, 1.20x for Top Markets, 1.25x for Standard, etc., with appropriate adjustments for cash-out, full-term interest-only, etc.

Here are a few additional details to note:

- If the borrower does not satisfy the five items above within 12 months after the Effective Date of the Loan Agreement, the remainder of the DSR will be used first to pay down any remaining forborne debt service and then transferred to the Capital Replacement and Repair Reserve for the balance of the loan term and may be used to reimburse the borrower for the cost of Capital Replacements.

- Borrowers may choose to participate in forbearance per the terms of the CARES Act and Freddie Mac's guidelines. If the borrower chooses forbearance, the forborne payments will be spread over the following 12 months' debt service payments. If borrower's repayment of forborne amounts begins while the DSR is still in effect, for any month where collections are below breakeven, borrower may also apply the DSR to that month's 1/12 repayment of the forborne amount.
- For properties located in areas where Freddie Mac requires a seismic report, SBL will require the borrower to carry earthquake insurance on the property until a satisfactory seismic report is complete.
- The lender must provide evidence that the recordation office has received the request to record in order for Freddie Mac to purchase the SBL loan.

Please visit our Origination and Underwriting page that includes the new documents for the DSR.

We'll continue to assess the situation surrounding COVID-19 impacts on the SBL business. Please take note of the credit changes to cash-out refinances and commercial income we rolled out last week. We look forward to closing more SBL loans with you, and we appreciate your patience as we continue to come up with workable solutions during this uncharted time.